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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-07 FRB-03 INR-07 IO-11 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 XMB-02

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PASS CEA, TREASURY, FRB

E.O.11652: N/A

TAGS: ECON, OECD

SUBJECT: ECONOMIC POLICY COMMITTEE (EPC) WORKING PARTY II

MEETING, FEB 11-12: STUDIES OF PUBLIC EXPENDI-
TURE ON HEALTH, SOCIAL INFRASTRUCTURE AND
INCOME MAINTENANCE (REFDOCS A, B, C)

REFS: (A) CPE/WP2(75)7, (B) CPE/WP2(76)1,
(C) CPE/WP2(75)5, (D) OECD PARIS 02300

1. SUMMARY. DURING FEBRUARY 11-12 MEETING OF WP-2
(MOST OF WHICH WAS DEVOTED TO DISCUSSION OF MEDIUM-TERM
GROWTH PROSPECTS, SEE SEPTTEL), BRIEF DISCUSSION OF PUB-
LIC EXPENDITURE STUDIES (REFDOCS A, B AND C) TOOK PLACE.
ALL DELS (EXCEPT U.K.) FELT THAT HEALTH PAPER SHOULD
AVOID DELVING INTO EXCESSIVE SECTORAL DETAIL IN KEEPING
WITH WORKING PARTY'S MACRO-ECONOMIC ORIENTATION. SECRE-
TARIAT TOOK POSITION THAT WP-2 HAD MANDATE FROM EPC TO
STUDY RESOURCE ALLOCATION, THAT HEALTH EXPENDITURE WAS
FASTEST GROWING PORTION OF PUBLIC SECTOR, AND THAT
APPROPRIATE LEVEL OF DISAGGREGATION SHOULD BE DETERMINED

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PRAGMATICALLY. U.S. LAUNCHED ATTACK ON SECRETARIAT PRO-
POSAL FOR SOCIAL INFRASTRUCTURE STUDY, STRESSING THAT

STUDY'S FOCUS AND METHODOLOGY RENDERED IT IRRELEVANT FROM U.S. POINT OF VIEW, AND URGED THAT EFFORT BE ABANDONED. FOLLOWUP: WP-2 DECIDED THAT PROBLEMS OF DATA AND METHODOLOGY ENCOUNTERED IN HEALTH PAPER NECESSITATED ONE DAY (APRIL 8) EXPERTS GROUP MEETING. WORKING PARTY ALSO DECIDED THAT ANALYTIC SCOPE OF SOCIAL INFRASTRUCTURE PAPER SHOULD BE LIMITED TO HOUSING (DATA ON TRANSPORT SECTOR INVESTMENT WOULD BE INCLUDED), AND THAT BOTH HEALTH AND INFRASTRUCTURE STUDIES WOULD BE CONSIDERED AT AUTUMN, 1976 WP-2 MEETING, WHILE NEXT MEETING, WHICH TENTATIVELY SET FOR MAY 19-20, WOULD

FOCUS ENTIRELY ON GROWTH STUDY. END SUMMARY.

2. PUBLIC EXPENDITURE ON HEALTH (REFDOC A): MOST DELS FELT THAT DETAILED STUDY OF PUBLIC HEALTH EXPENDITURE CARRIED WITH IT RISK THAT WORKING PARTY WOULD BECOME SUBMERGED IN MICRO-ECONOMIC DETAIL AND THUS GETTING AWAY FROM WP-2'S MACRO-ECONOMIC FOCUS. U.K. POSITION (THEY WERE ALONE) WAS THAT EXTENSIVE DETAIL WAS NECESSARY TO MAKE STUDY BOTH ANALYTICALLY PRECISE AND RELEVANT TO POLICY-MAKERS. SECRETARIAT (MARRIS) RECALLED THAT WHILE WP-2'S MANDATE FROM EPC STATED THAT PRIMARY FOCUS OF WORKING PARTY SHOULD BE MEDIUM-TERM GROWTH, IT ALSO INDICATED THAT WP-2 SHOULD STUDY PROBLEMS OF RESOURCE ALLOCATION. MARRIS ADDED THAT GROWTH OF PUBLIC SECTOR WAS CENTRAL TO PROBLEM OF RESOURCE ALLOCATION OVER MEDIUM TERM, AND THAT HEALTH EXPENDITURE WAS FASTEST GROWING PORTION OF PUBLIC EXPENDITURE AND THE PRIMARY AREA WHERE SAVINGS WOULD BE POSSIBLE. (MARRIS EXPRESSED REGRET THAT COMMENTS ON PAPER, CIRCULATED FOUR MONTHS AGO, HAD BEEN FEW AND VAGUE, AND THAT MOST DELS AT MEETING HAD APPARENTLY NOT READ PAPER.) SECRETARIAT (BOLTHO) TOOK POSITION (FINALLY SUPPORTED BY WP-2) THAT DEGREE OF DISAGGREGATION SHOULD BE DETERMINED AS FUNCTION OF INCREMENTAL BENEFITS AND COSTS WITHIN OVERALL CONSTRAINT OF SECRETARIAT'S RESOURCE AVAILABILITY.

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3. WP-2 SUPPORTED CHAIRMAN'S (SKANLAND) VIEW THAT HEALTH STUDY COULD BE ADVANCED QUICKLY PROVIDED THERE WAS SUFFICIENT NATIONAL TECHNICAL INPUT. IT WAS THEREFORE DECIDED TO CONVENE AN EXPERTS' MEETING ON APRIL 8 FOR THIS PURPOSE. SECRETARIAT SUGGESTED THAT APPROPRIATE REPRESENTATION WOULD BE ONE REGULAR WP-2 REP AND ONE SECTORAL EXPERT FROM EACH COUNTRY. (SECRETARIAT WILL SHORTLY CIRCULATE LETTER WITH DETAILS TO HEADS OF DELEGATIONS.) CURRENT PLAN IS TO SUBMIT PAPER, REVISED PER RESULTS OF EXPERTS MEETING, TO AUTUMN, 1976 WP-2

PLENARY MEETING.

4. PROPOSALS FOR STUDY ON SOCIAL INFRASTRUCTURE
(REFDOC B): U.S. DEL (VON FURSTENBERG) LED OFF DIS-

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CUSSION WITH SCATHING CRITICISM OF FOCUS AND METHOD-
OLOGY OF PROPOSED STUDY. SPECIFICALLY, U.S. STRESSED
THAT PORTION DEVOTED TO PUBLIC EXPENDITURE ON HOUSING
CENTERED ON SUPPLY SUBSIDIES (FOR INVESTMENT) AND DIRECT
MORTGAGE SUBSIDIES, WHEREAS U.S. PROGRAMS CONCENTRATE
ON DEMAND SUBSIDIES AND ARE AIMED AT INCOME MAINTENANCE
RATHER THAN AUGMENTING HOUSING STOCK. U.S. POINTED
OUT THAT AS CURRENTLY PROPOSED THE STUDY WOULD IGNORE
HOUSING CONSTRUCTION UNDER U.S. TURNKEY PROGRAM (WHICH
IS CLASSIFIED AS PRIVATE), AND THAT FRAMEWORK OF ANALYSIS
WAS INAPPROPRIATE FOR DEALING WITH FEDERAL ACTIVITY IN
SECONDARY MORTGAGE MARKETS. U.S. STATED FURTHER THAT
SECRETARIAT METHODOLOGY WAS, AT BEST, QUESTIONABLE AND
THAT COMBINATION OF POOR METHODOLOGY AND MISDIRECTION
ARGUED FOR ABANDONING THE STUDY.

5. WHILE AGREEING WITH MUCH OF U.S. ANALYSIS, MOST DELS DID NOT FAVOR DROPPING STUDY ENTIRELY. WP-2 DECIDED TO LIMIT ANALYTICAL PORTION OF INFRASTRUCTURE STUDY TO PUBLIC EXPENDITURE ON HOUSING, AND WILL CIRCULATE FIRST DRAFT FOR AUTUMN 1976 WP-2 PLENARY. HOWEVER, SECRETARIAL OFFICIAL USE

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TARIAT WILL ALSO COLLECT DATA ON PUBLIC EXPENDITURE ON TRANSPORTATION, WILL PRESENT DATA AT SAME MEETING; DELEGATIONS WILL DECIDE AT THAT TIME WHETHER DATA BASE WARRANTS FURTHER ANALYTICAL TREATMENT.

6. PUBLIC EXPENDITURE ON INCOME MAINTENANCE AND EDUCATION (REFDOC C): CONSOLIDATED LIST OF AMENDMENTS (SEE REF D PARA 2) WAS NOT READY IN TIME FOR MEETING. IN ANY CASE, SECRETARIAT DID NOT INDICATE ANY CHANGE IN ITS PLAN TO HANDLE NATIONAL CONCERNS WITH RESPECT TO THE TEXT OF THE REPORT THROUGH CORRESPONDENCE RATHER THAN IN WORKING PARTY MEETINGS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETING AGENDA, GOVERNMENT BUDGET, ECONOMIC COOPERATION, COMMITTEE MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976OECDP05372
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760067-0733
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760223/aaaaatyb.tel
Line Count: 194
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 16 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 APR 2004 by greeneet>; APPROVED <06 JUL 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC POLICY COMMITTEE (EPC) WORKING PARTY II MEETING, FEB 11-12: STUDIES OF PUBLIC EXPENDI-
TAGS: ECON, OECD
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006